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S E C R E T SECTION 01 OF 02 MANAMA 000680

SIPDIS

STATE FOR S/CT, EB/ESC/TFS, INL/C/CP, H, NEA/ARPI
TREASURY FOR ZARATE, GLASER, OFAC RWERNER
NSC FOR PHEFFERNAN

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SUBJECT: TREASURY DAS GLASER CONGRATULATES BAHRAINI
OFFICIALS ON MENA FATF

Classified By: Ambassador William T. Monroe for reasons 1.4 (b) and (d)

1. (S) Summary. Treasury DAS Daniel Glaser and a US delegation congratulated the Minister of Finance, Sheikh Ahmed bin Mohammed al Khalifa, the Governor of the Bahrain Monetary Agency (BMA), Rasheed Mohammed al Maraj, and the Finance Ministry Undersecretary, Sheikh Ebrahim Bin Khalifa al Khalifa, on the success of the Middle East and North African Financial Action Task Force (MENAFATF) plenary April 11-14 and inquired about Bahrain's efforts to combat money laundering and terrorism financing. The Minister and BMA Governor noted that they were pushing the anti-terrorism law in Parliament and another law to define terrorism financing which will be submitted to Parliament soon. Additionally, the GOB reinstated the Policy Committee, headed by the Finance Ministry, which covers terrorism financing. The BMA Governor said that conventional and Islamic banks are regulated by the BMA and that the primary difference is the accounting procedures required from Islamic banking. The Minister and BMA Governor also asked Glaser about the status of the Al Aqsa Islamic Bank (AAIB), which has assets frozen in Bahrain. End Summary.

2. (U) Treasury Deputy Assistant Secretary for Terrorist Financing and Financial Crimes, Daniel Glaser, attended the first plenary of the MENAFATF April 11-14, 2005 in Bahrain, and along with the Ambassador conducted meetings with GOB officials. Glaser was accompanied by a US delegation, which included Gary Peters, State INL, Jason Herring, FBI, Ahmed Elbashari, FinCEN, and Rachel Levenson, Treasury.

Minister of Finance

3. (U) Glaser and a US delegation met April 13 with the Finance Minister, Sheikh Ahmed, and congratulated the minister on the success of the MENAFATF plenary and thanked Bahrain for its leadership in setting up the organization, and funding its budget for five years. (Note. The MENAFATF is a FATF styled regional body (FSRB) made up of 14 countries from Morocco to Oman that promotes international anti-money laundering and combating terrorism financing (AML/CFT) standards. MENAFATF also conducts mutual evaluations of its members. End note). Glaser noted that MENAFATF's progress in just a few months has been exceptional compared to other FSRBs and encouraged the Minister to continue to support the MENAFATF.

4. (U) Glaser inquired about the status of the anti-terrorism law in Parliament and the draft law criminalizing terrorism financing. The GOB is trying to pass two laws to bring Bahrain into compliance with international standards. Sheikh Ahmed explained that the passage of these laws was critical to marketing Bahrain as a regional financial sector. The anti-terrorism law is facing stiff opposition in Parliament because different political blocs want to avoid anything resembling the State Security Laws, which were repealed in the late 1990s. The second law, which criminalizes terrorism financing, is still being reviewed by the government but the GOB plans to fast track the law once it reaches Parliament. (Note. The International Monetary Fund was in Bahrain April 17-May 2 doing a financial sector assessment and the lack of a law criminalizing terrorism financing will be noted negatively in their report. The GOB has been trying to push these laws forward to avoid this negative reporting. End note). Currently, Bahrain carries out its international obligations to freeze terrorist assets by issuing prime ministerial edicts, equivalent to U.S. presidential executive orders.

5. (S) The GOB also noted that the Policy Committee on money laundering and terrorism financing, headed by the Finance Ministry, was recently reinstated by a new ministerial order. The committee's three-year term recently ended and the new order extends the committee for another three years, until April 2008, increasing the size of the committee to include more ministries (including the Bahrain National Security Agency (BNSA)). Sheikh Ebrahim Bin Khalifa al Khalifa, Undersecretary at the Ministry of Finance, heads the Policy Committee.

BMA Governor

16. (U) The delegation met April 14 with the BMA Governor Al Maraj. Glaser inquired whether there was a different regulatory framework for Islamic banking. Al Maraj replied that the BMA is the regulator for both Islamic and conventional banking, and has issued rulebooks for both sectors, requiring they follow the same reporting and record keeping standards. The primary difference, from a regulatory standpoint, is the different accounting procedures required for Islamic banking which also must comply with Islamic Shari'a law.

17. (U) In an earlier meeting, Sheikh Ebrahim noted that the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) established in Bahrain in 1990 is the leading organization in the world for setting Islamic banking accounting standards. Glaser extended an invitation through Sheikh Ebrahim to the head of AAOIFI to meet with US Treasury officials in Washington.

18. (C) When the BMA Governor was asked about the status of the anti-terrorism law and the law criminalizing terrorism financing, he replied that he hoped they would be passed in time for the IMF review. However, he doubted that they would be. He noted that the two laws were interconnected and that the terrorism financing law, if it is passed, still needs the anti-terrorism law to define terrorism in order to be effective. In response to Glaser's question whether the GOB had any plans to proactively propose any names to the UN 1267 Committee, the Governor stated that such people did not live in Bahrain.

19. (S) Glaser also raised the issue of the assets of Al Aqsa Islamic Bank (AAIB), which have been frozen in Bahrain. Glaser noted that the USG is working with George Abed, the new head of the Palestinian Monetary Authority, to resolve the issue. (Note. The BMA has required the freezing of approximately \$10 million dollars of AAIB assets in Bahrain. The Bahrainis are eager to have this issue resolved. Endnote.)

Charities and Hawalas

10. (U) The BMA Governor noted that the BMA does not have a direct role in overseeing charities, unless there is a suspicious transaction or the charity transfers over 20,000 Bahraini Dinar (about 53,000 dollars) in which case the charity is required to file a report with the BMA. The Governor also ruled out the possibility of Bahrain having significant non-banked communities. When Glaser responded that a sizable Filipino community in Bahrain would suggest the potential for such a non-banked community, the Governor conceded that it was possible but believed it was unlikely due to easy access to inexpensive formal banking and remittance services.
MONROE